

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT**CAL-MORTGAGE LOAN INSURANCE DIVISION**

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**APPLICATION INSTRUCTIONS****For****CAL-MORTGAGE LOAN INSURANCE**

The purpose of these Instructions is to describe the steps involved in the processing of applications for loan insurance from the Cal-Mortgage Division of the Office of Statewide Health Planning and Development (**OSHPD**). Additionally, these Instructions provide a “check list” of the documents that an Application (borrower) will need to provide.

By structuring the application process in multiple stages, OSHPD’s goal is to make determinations about an application as early in the process as possible. In this way, if an application is disapproved, the Applicant’s costs are kept to a minimum.

Additional information about the Cal-Mortgage Program, including its programmatic priorities, appears in the Cal-Mortgage State Plan.

Please note that financial statements and other information submitted to Cal-Mortgage are not confidential information under the California Public Records Act and may be disclosed upon request.

The Cal-Mortgage Program is regulated by Health and Safety Code Section 129000, et. seq., (**Insurance Law**) and other laws. The Insurance law and related laws are included in this application package.

I. Preliminary Project Review

In this first step, Cal-Mortgage staff informally reviews with a potential Applicant the proposed project and financing. They explore such questions as: is the potential Applicant an eligible health facility; is the proposed project a new facility, expansion of existing facility, remodeling or modernization, or refinancing of an existing facility? What are the objectives of the potential project in terms of new services, expanded services, or more efficient services? Is the scope of the project within the Cal-Mortgage program parameters? The Project Officer will be especially interested in exploring the community need for the facility, the eligibility of the Applicant and the general feasibility of the project.

Note that the \$500 application fee need not be sent in at this stage.

To be eligible for loan insurance the Applicant must be a California nonprofit public benefit corporation or a political subdivision, be a facility providing health services, and assure that its services will be available to all persons residing in the facility's service area. For additional detail on eligibility requirements, please refer to Section 129010 (g) and Section 129050 of the Insurance Law.

For the purpose of this informal review, the following information should be provided to the Cal-Mortgage Loan Insurance Division of **OSHPD**:

- The full name of the Applicant, contact person, address and telephone number.
- A statement indicating whether the Applicant is a California nonprofit public benefit corporation with an IRS 501(c)(3) designation, a city, a county, a joint powers entity, a local hospital district, or another entity.
- A brief narrative describing the Applicant organization and its history and outlining the scope of the project, particularly the specific health care services to be rendered upon the completion of the project.
- An estimate of project costs with a breakdown of major items and a list of the projected source of funds to cover the costs.
- Audited financial statements of the Applicant organization for the prior three years, if available, and the latest available unaudited report.
- Copy of all current license(s) to operate the facilities.

Upon the receipt of the above items, Cal-Mortgage will assign a Project Officer to the Applicant's project. The Project Officer will contact the Applicant, answer any questions the Applicant may have, and visit both the existing campus of the Applicant and the proposed project site. The Project Officer will advise the potential Applicant of any possible eligibility, structural or feasibility issues, and provide guidance on how the Applicant should proceed through the application process. Considering the advice of the Project Officer from this informal review, the potential Applicant may decide to proceed to the next step, a formal application.

II. Formal Application Review: Determination of Preliminary Eligibility

The Applicant must submit a \$500 non-refundable application fee and the items listed below, including a signed application form (Exhibit A), to commence this stage. Checks should be made payable to, "Office of Statewide Health Planning and Development."

At this stage of the application process, a preliminary determination is made regarding eligibility for Cal-Mortgage loan insurance. In order for Cal-Mortgage to make this determination, the Applicant should submit **one (1) copy** of the following **items 1 through 19** using **flexible covered binders secured with Acco fasteners on the left side**. If a particular item is not applicable, please include the appropriately numbered tab, the description of that item, and state **"Not Applicable"**. The tabs should be numbered and the application organized as follows:

TAB Description of Items to Include in the Application Under the Tab

1. Table of Contents (consisting of items 1 through 29).
2. Application for Health Facility Construction Loan Insurance (Form OSH-CM-135) see Exhibit A.
3. A brief narrative outlining the scope of the project and services to be rendered upon completion of the project. Include the following in the narrative:
 - a. History of the Applicant's organization and rationale for its proposed project.
 - b. A brief discussion of all alternatives which the Board of Directors has evaluated in determining to do the proposed project, together with the reason or reasons each alternative was rejected, especially each less costly alternative.
 - c. If land is to be purchased:
 - i. A description of the proposed parcel or parcels, and all improvements thereon.
 - ii. A copy of the Purchase (Option) Agreement.
 - d. If the project includes a refinancing: a copy of the promissory note or Official Statement for the prior bond issue and evidence of the current outstanding principal balance and an amortization schedule.
 - e. If the project is only a refinancing that is not currently insured by OSHPD and if the refinancing is being undertaken for reasons other than debt service savings, explain the reasons.
4. A description of how this project will meet identified health-care needs of the community or of an underserved population, including how the project will provide culturally competent care. Include a list of what bilingual services, if any, are, or will be, offered at the facility.
 - a. Describe the community services:
 - i. The Applicant shall provide as a result of this project, as required by Insurance Law Sections 129050(j) and 129085(b); and
 - ii. The Applicant is currently providing.
 - b. If this project is a hospital, also describe the community services the Applicant shall provide as a result of this project, as required by Insurance Law Sections 129055, 129065, 129070, 129075, and 129085(a).
 - c. If the Applicant has filed a community benefit plan as required by Senate Bill 697 (Torres, which was signed into law September 1994) with the Health Policy and Planning Division of OSHPD, attach a copy of that plan, which may suffice for the requirement of this Tab 4.
5. Small scale or schematic drawings, which include at a minimum:
 - a. Map of the community showing location of the site.
 - b. Plot plan showing property lines and existing and proposed new structures positioned on the site.
 - c. A single-line drawing of the floor plans of new and remodeled structures.

6. Estimate of Cost and Requisition (Form OSH-CM-134) see Exhibit B.
7. If construction is part of the project, identify planning documents, building permits and government agency approvals that will be required for the project, and which approvals are in-hand and the estimated dates for obtaining pending permits.
8. Copies of the Applicant's current year unaudited financial statements, year-to-date (not over two months old).
9. Copies of the Applicant's audited financial statements for the prior three years.
 - a. Include all auditor's management letters to the Applicant and any "parent" corporation. A sample letter is attached hereto as Exhibit C for this purpose.
 - b. Include management's discussion of recent financial and operational performance of the Applicant and facility, if necessary to explain any audit.
10. Chart of the Applicant's structure (parents, affiliates, subsidiaries) including statement of financial condition (assets, liabilities, net income) for each entity.
 - a. Copy of any agreement with, or loans or guarantees to or from, the Applicant and/or "parent" corporation or other entity.
11. Answers to all questions in the "Supplemental Management and Disclosure Information Requirements", see Exhibit D.
12. Copy of all current license(s) to operate the facilities.
13. Certified copy of the resolution of the governing board of the Applicant authorizing the borrowing and designating a signatory to execute the transaction documents.
14. If the Applicant expects to reimburse itself for any expenditures from proceeds of a tax exempt borrowing, then the Applicant should submit a Declaration of Official Intent, see Exhibit E. The final resolution must be approved by bond counsel prior submission to Cal-Mortgage.
15. If the Applicant is a corporation, (a) the Articles of Incorporation and (b) the Bylaws of the Corporation and any "parent" corporation or co-obligor.
16. If the Applicant is a corporation:
 - a. Current Internal Revenue Service 501(c)(3) designated letter.
 - b. Franchise Tax Board tax-exempt designation letter.
17. Facility (Development) Master Plan, or a narrative description of the Applicant's plans for future development, acquisition of real property or growth over the term of the proposed borrowing, if any.

18. Copy of the Deposit Subscription Agreement (if Continuing Care Multi-Level Facility).
19. Copy of the Care and Resident Agreement (if Continuing Care Multi-Level Facility).

After reviewing the above materials with the Applicant, the Project Officer makes a determination regarding the eligibility of the proposed project. Eligible projects may proceed to the next step.

III. Formal Application Review: Assessment of Financial Feasibility

At this stage of the process, Cal-Mortgage assesses the fundamental financial feasibility of the project and risks associated with issuing a loan guarantee. For that purpose, the Applicant should submit **one (1) copy** of items **20 to 29**. At the same time, if any of the above information has changed, the Applicant should provide that revised information.

20. Applicant's Financial Feasibility Study, see Exhibit F. (Note that for small projects, generally those less than \$1 million, the Applicant should consult with its Project Officer regarding the possibility of using a financial feasibility workbook. This standard workbook for small projects may be prepared by the Applicant internally, avoiding significant consulting cost.)
21. Debt service schedule.
22. Copies of grants, contracts and other information that support revenue forecasts.
23. If construction is part of the project:
 - a. A description of the architect's and engineer's past experience in designing a similar type facility.
 - b. A copy of the executed contract(s) with the architect and all engineers, if any.
 - c. If known, the name, address and telephone number of the proposed contractor for the project and a description of the contractor's past experience in constructing a similar type facility.
 - d. A breakdown of construction costs prepared by a cost estimator.
 - e. Preliminary architectural drawings.
24. Description of all consulting contracts, including parties thereto, relating to the project.
25. Original commitment letters to Cal-Mortgage from the proposed issuer of the bonds or certificates of participation (collectively **Bonds**) and from the underwriter.
26. Original of the property appraisal by a State Certified Appraiser. (See Business and Professions Code Section 11300, et. seq.).
27. Copy of the zoning approval (if required by a local agency for the project to proceed).

28. Copy of the Environmental Impact Report or Negative Declaration approved by the appropriate authority.
29. Preliminary title report for issuance of ALTA Lenders title policy.

After review of these application materials by Cal-Mortgage staff, the Deputy Director of the Cal-Mortgage Division determines whether or not to recommend approval of the project, and if so, with what conditions. If approval is recommended, Cal-Mortgage will schedule the application for a meeting of the Advisory Loan Insurance Committee, and the Project Officer will notify the Applicant to submit **one (1) more complete set of items through 29 and twelve (12) additional sets of items 1 through 11 and 20 and 21**, unless the Project Officer indicates that fewer are necessary.

If Cal-Mortgage does not approve the application, Cal-Mortgage will notify the Applicant in writing.

IV. Review by the Advisory Loan Insurance Committee

The next step is a consideration of the application and staff's recommendation by the Advisory Loan Insurance Committee (**Committee**) in a public hearing. Only those applications recommended by the Deputy Director of the Cal-Mortgage Division are considered by the Committee. The Committee, composed of health care industry experts, provides the Director with additional analysis and advice with respect to the application. After its deliberation regarding an application, the Committee decides whether to recommend the project to the Director of OSHPD for approval.

In the event either Cal-Mortgage or the Committee denies an application, Health and Safety Code Section 129100 provides that the Applicant may appeal, by requesting that the California Health Planning and Data Advisory Commission review the decision and make its recommendation for approval or disapproval of the application to the Director.

V. Issuance of Conditional Loan Insurance Commitment

If the Director concurs with the recommendation of Cal-Mortgage and the Advisory Loan Insurance Committee to approve the application, OSHPD will issue a letter of commitment to insure the project loan. This letter of commitment will also specify the conditions the Applicant must meet prior to the sale of the Bonds and the closing of the insured loan transaction. Such conditions typically include demonstration that required documents and actions have been completed as listed in the following two steps, and may also include conditions intended to improve the financial feasibility of the project or reduce the risk to the Cal-Mortgage Program. For example, OSHPD may require additional security such as a co-obligor or a guarantee from another entity. The term of the commitment to insure the Applicant's loan normally ranges from 3 to 6 months, but in no case exceeds 12 months.

VI. Preparation for Marketing the Bonds

In order to assure that the closing of the transaction will proceed as planned, the following documents must be received and approved by Cal-Mortgage staff prior to sale or pricing of the bonds. Again, **if any information previously submitted to Cal-Mortgage has changed, the Applicant must provide that revised information** to the Project Officer.

30. Two draft copies of all **closing documents**, one for the Project Officer and the second for the Deputy Attorney General assigned to Cal-Mortgage.
31. Copy of the preliminary Source and Use of funds breakdown and debt service schedule prepared by the underwriter prior to the sale of the Bonds, including documentary evidence verifying owner's equity.
32. Proforma title report for issuance of ALTA Lender's title policy (Form 1970-Revised 1984 or Form 1192-1 with an endorsement which excludes item 7 [bankruptcy] from coverage) with OSHPD designated as a co-beneficiary and in an amount equal to the loan bond par amount, for the project, with the following endorsement Forms:
 - a. 100, insures against loss;
 - b. 103.4, insures easement to a public street;
 - c. 103.7, insures access to a street;
 - d. 116.4, contiguous parcels;
 - e. 116, insures street address, locations, and dimensions; and
 - f. 116.1, said land is the same as that delineated on the plat of a specific survey.Cal-Mortgage may require additional endorsements.
33. Phase I Environmental Site Assessment from the California Department of Toxic Substances Control, see Exhibit G.
34. Evidence, either that the following insurance coverage is in effect for work in progress or work to be performed, or of a commitment to provide such insurance coverage before construction begins:
 - a. Statutory worker's compensation and employer's liability.
 - b. Bodily injury and property damage liability.
 - c. Such other insurance as is required in the Regulatory Agreement.
35. In construction is part of the project:
 - a. A certification from the architect that (a) the final set of the architectural plans and (b) the construction materials outline specification for the entire project are complete and available to Cal-Mortgage upon request.
 - b. Copy of the construction contract to be executed, with a fixed limit of construction cost (not-be-exceed price) for the entire project.
 - c. The name of the contractor who has been awarded the construction contract.
 - d. Copies of all building permits and governmental agency approvals required for the project.

36. In the case of the acquisition of residential units, a pest, (including termites) inspection indicating there is not pest problem.
37. Documents indicating that any other conditions in the commitment letter from OSHPD have been satisfied.

VII. Closing the Insured Loan Transaction

The following items shall be provided to the Project Officer prior to the closing of the loan insured by OSHPD. Additionally, **if any of the above information has changed, the Applicant shall provide that revised information** to the Project Officer prior to the closing of the insured loan transaction.

38. Copy of the final Source and Use of funds breakdown and a debt service schedule prepared by the underwriter after the Bonds have been priced.
39. If construction is part of the project:
 - a. Copy of the executed construction contract, including all amendments or additions thereto, and all correspondence between the contractor and the Applicant.
 - b. Evidence of fire and extended coverage for all work performed under contract and other improvements on the site against loss or damage to the extent of replacement value covered by the standard extended coverage insurance endorsement. The policies shall include a standard mortgage clause making any loss payable to the mortgage and OSHPD, as their interest may appear.
 - c. Evidence of performance, payment, and materialman's bonds in the amount of the construction contract for all contractors and subcontractors.

The following shall be provided to OSHPD **at the closing of the insured loan transaction**:

40. ALTA Lender's title policy, with OSHPD designed as a beneficiary in an amount equal to the Bonds with the above endorsements.
41. **COLLATERAL**. OSHPD must receive the following collateral:
 - a. A first lien on all the Applicant's property, except property that is not a part of the project on which there already is a first lien acceptable to OSHPD, in which case OSHPD shall take a second lien.
 - b. A pledge of all the Applicant's gross revenues.
42. On closing escrow, the Applicant shall provide Cal-Mortgage, at no cost to Cal-Mortgage, three copies of the transcript (closing documents), with the first copy being loose-leaf in a notebook, the second copy being a bound copy, and the third copy being a CD-ROM (unless CD-ROM capability is not available).

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